

RURAL WATER DISTRICT NO 1
HARVEY COUNTY, KANSAS

Independent Auditor's Report

December 31, 2010

Rural Water District No. 1, Harvey County, Kansas

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Knudsen Monroe & Company LLC

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rural Water District No. 1
Harvey County, Kansas

We have audited the accompanying balance sheets of the Rural Water District No. 1, Harvey County, Kansas as of December 31, 2010 and 2009, and the related statements of revenues, expenses, and changes in fund equity and cash flows for the years then ended. These financial statements are the responsibility of the Water District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rural Water District No. 1, Harvey County, Kansas as of December 31, 2010 and 2009, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Rural Water District No.1, Harvey County, has not presented the Management Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Knudsen, Monroe + Company, LLC

Certified Public Accountants

February 7, 2011

Rural Water District No. 1, Harvey County, Kansas

BALANCE SHEETS

December 31, 2010 and 2009

| <u>ASSETS</u> | <u>2010</u> | <u>2009</u> |
|--|--------------------|------------------|
| CURRENT ASSETS | | |
| Cash and equivalents | \$ 500,941 | 436,812 |
| Certificates of deposit | 566,179 | 555,701 |
| Accounts receivable - customers | 50,647 | 52,987 |
| Accounts receivable - other | 540 | 3,287 |
| Accrued interest income | 2,653 | 4,021 |
| Inventory | 24,841 | 19,912 |
| Prepaid expenses | 4,021 | 4,059 |
| Total current assets | <u>1,149,822</u> | <u>1,076,779</u> |
| CAPITAL ASSETS, net of accumulated depreciation when applicable | | |
| Capital assets not being depreciated | 16,911 | 7,422 |
| Capital assets, net of depreciation | <u>5,323,337</u> | <u>5,352,624</u> |
| Total capital assets | <u>5,340,248</u> | <u>5,360,046</u> |
| OTHER ASSETS | | |
| Loan fees - net of accumulated amortization of \$8,992 and \$6,318 respectively | 44,490 | 55,350 |
| Restricted investment - KDHE loan reserve | <u>424,331</u> | <u>425,241</u> |
| Total other assets | <u>468,821</u> | <u>480,591</u> |
| Total assets | <u>\$6,958,891</u> | <u>6,917,416</u> |
| <u>LIABILITIES AND FUND EQUITY</u> | | |
| CURRENT LIABILITIES | | |
| Current portion of long-term debt | \$ 166,824 | 161,171 |
| Accounts payable | 13,467 | 5,614 |
| Accrued interest payable | <u>52,515</u> | <u>55,500</u> |
| Total current liabilities | 232,806 | 222,285 |
| LONG-TERM DEBT | | |
| Long-term debt, net of current portion | <u>3,525,497</u> | <u>3,701,417</u> |
| Total liabilities | <u>3,758,303</u> | <u>3,923,702</u> |
| NET ASSETS, Page 3 | | |
| Invested in capital assets, net of related debt | 1,647,927 | 1,497,458 |
| Restricted for debt service | 545,760 | 546,669 |
| Unrestricted | <u>1,006,901</u> | <u>949,587</u> |
| Total fund equity | <u>3,200,588</u> | <u>2,993,714</u> |
| Total liabilities and fund equity | <u>\$6,958,891</u> | <u>6,917,416</u> |

See notes to financial statements

Rural Water District No. 1, Harvey County, Kansas

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY

Years ended December 31, 2010 and 2009

| | <u>2010</u> | <u>2009</u> |
|---|--------------------|------------------|
| REVENUES | | |
| Water sales | \$ 797,052 | 633,265 |
| Miscellaneous income | <u>32,451</u> | <u>28,373</u> |
| Total operating revenues | <u>829,503</u> | <u>661,638</u> |
| EXPENSES | | |
| Cost of water purchased | 3,985 | 3,361 |
| Office supplies and expenses | 14,324 | 11,797 |
| Professional fees | 13,210 | 5,469 |
| Salaries | 147,510 | 139,921 |
| Payroll taxes | 15,950 | 15,578 |
| Utilities | 37,114 | 33,631 |
| Depreciation | 236,538 | 228,975 |
| Dues and fees | 3,717 | 2,679 |
| Insurance | 16,019 | 16,076 |
| Repairs and maintenance | 25,491 | 20,931 |
| Vehicle and mileage | 15,805 | 9,443 |
| Other expenses | <u>8,074</u> | <u>10,624</u> |
| Total operating expenses | <u>537,737</u> | <u>498,485</u> |
| Operating income | <u>291,766</u> | <u>163,153</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest income | 17,831 | 26,136 |
| Gain/(loss) on disposition of property assets | (375) | 450 |
| Interest expense | (127,274) | (132,908) |
| Amortization of bond issuance costs | <u>(2,674)</u> | <u>(3,084)</u> |
| Total nonoperating revenues (expenses) | <u>(112,492)</u> | <u>(109,406)</u> |
| Income before other revenues | 179,274 | 53,747 |
| OTHER REVENUES | | |
| Benefit unit sales | <u>27,600</u> | <u>36,600</u> |
| Net income | 206,874 | 90,347 |
| FUND EQUITY, beginning of year | <u>2,993,714</u> | <u>2,903,367</u> |
| FUND EQUITY, end of year | <u>\$3,200,588</u> | <u>2,993,714</u> |

See notes to financial statements

Rural Water District No. 1, Harvey County, Kansas

STATEMENTS OF CASH FLOWS

Years ended December 31, 2010 and 2009

| | <u>2010</u> | <u>2009</u> |
|--|-------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from water sales | \$ 799,392 | 675,029 |
| Other cash received | <u>35,198</u> | <u>35,285</u> |
| | <u>834,590</u> | <u>710,314</u> |
| Cash paid for: | | |
| Water purchases | (3,982) | (3,370) |
| Salaries and payroll taxes | (163,496) | (155,502) |
| Other expenses | <u>(135,686)</u> | <u>(121,671)</u> |
| | <u>(303,164)</u> | <u>(280,543)</u> |
| Net cash provided by operating activities | <u>531,426</u> | <u>429,771</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of certificates of deposit | (180,747) | (15,487) |
| Redemption of certificates of deposit | 170,269 | - |
| Interest income received | 19,199 | 33,923 |
| Proceeds from sale of capital assets | - | 450 |
| Purchase of capital assets | <u>(212,188)</u> | <u>(125,926)</u> |
| Net cash used in investing activities | <u>(203,467)</u> | <u>(107,040)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Long-term debt payments | | |
| Principal paid | (161,171) | (210,394) |
| Interest paid | (130,259) | (130,040) |
| Proceeds from long-term debt | - | 80,645 |
| Benefit unit sales | <u>27,600</u> | <u>36,600</u> |
| Net cash used in financing activities | <u>(263,830)</u> | <u>(223,189)</u> |
| Net increase in cash and cash equivalents | 64,129 | 99,542 |
| CASH AND CASH EQUIVALENTS, beginning of year | <u>436,812</u> | <u>337,270</u> |
| CASH AND CASH EQUIVALENTS, end of year | <u>\$ 500,941</u> | <u>436,812</u> |

See notes to financial statements

Rural Water District No. 1, Harvey County, Kansas

STATEMENTS OF CASH FLOWS

Years ended December 31, 2010 and 2009

| | <u>2010</u> | <u>2009</u> |
|---|-------------------|-----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Operating income (loss), Page 3 | \$ 291,766 | 163,153 |
| Adjustments to reconcile change in net income to net cash provided by operating activities | | |
| Depreciation | 236,538 | 228,975 |
| (Increase) decrease in receivables - customers | 2,340 | 41,764 |
| (Increase) decrease in receivables - other | 2,747 | 6,912 |
| (Increase) decrease in inventory | (4,929) | (4,062) |
| (Increase) decrease in prepaid expenses | 38 | (978) |
| Increase (decrease) in accounts payable | <u>2,926</u> | <u>(5,993)</u> |
| Net cash provided by operating activities | <u>\$ 531,426</u> | <u>429,771</u> |
| NONCASH ACTIVITY | | |
| Amortization of bond issuance costs | <u>\$ 2,674</u> | <u>3,084</u> |
| Capital asset addition included in accounts payable | <u>\$ 4,927</u> | <u>(86,672)</u> |
| KDHE loan reserve funded with loan advances | <u>\$ -</u> | <u>8,961</u> |
| KDHE loan fees adjusted for final amount borrowed | <u>\$ (8,186)</u> | <u>-</u> |
| KDHE loan reserve adjusted for final amount borrowed | <u>\$ (910)</u> | <u>-</u> |
| KDHE loan balance adjusted for final amount borrowed | <u>\$ (9,096)</u> | <u>-</u> |
| Loss on disposition of capital assets | <u>\$ 375</u> | <u>-</u> |

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Rural Water District No. 1, Harvey County, Kansas was incorporated and organized on March 24, 1975, by order of the Board of County Commissioners, Harvey County, Kansas under provisions of K.S.A. 82a-613. The District was organized to provide water for rural Harvey and Marion County residents. The District is a Kansas municipality and is exempt from federal and state income taxes.

Basis of Accounting

The financial statements of the District have been prepared using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Uncollected water service receivables are recorded at year end.

Capital Assets

Capital assets are recorded at cost. The water system is depreciated on the straight-line method over an estimated useful life of forty years. The other capital assets are depreciated on the straight-line method over an estimated useful life of six to twenty-five years.

At December 31, 2010 and 2009, capital assets consist of the following:

| | <u>2010</u> | <u>2009</u> |
|--------------------------------------|--------------------|------------------|
| Capital assets not being depreciated | | |
| Land | \$ 7,422 | 7,422 |
| Construction in progress | <u>9,489</u> | <u>-</u> |
| | <u>\$ 16,911</u> | <u>7,422</u> |
| Capital assets being depreciated | | |
| Water system and line | \$7,638,683 | 7,479,742 |
| Buildings and improvements | 167,871 | 167,871 |
| Equipment and furnishings | 101,825 | 107,473 |
| Vehicles | <u>63,406</u> | <u>63,406</u> |
| | 7,971,785 | 7,818,492 |
| Less accumulated depreciation | <u>2,648,448</u> | <u>2,465,868</u> |
| | <u>\$5,323,337</u> | <u>5,352,624</u> |

Amortization

Issuance costs of water revenue bonds are amortized under the interest method over the repayment terms of the bonds.

Inventory

Inventory, consisting of meters, pipes and fittings, is stated at lower of cost or market on the first-in, first-out basis.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statement of Cash Flows

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of less than three months to be a cash equivalent. At December 31, 2010 and 2009, cash and cash equivalents consisted of demand and money market accounts with local financial institutions.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. CASH AND DEPOSITS

At December 31, 2010, the bank balance of the District's deposits, including certificates of deposit, was \$1,069,092. Of this balance \$652,308 was covered by FDIC insurance and \$416,784 was collateralized by pledged securities held under joint custody receipts issued by a third-party bank in the District's name. The third-party bank holding the pledged securities is independent of the pledging bank. The pledged securities are held under a tri-party custodial agreement signed by all three parties: the District, the pledging bank, and the independent third-party bank holding the pledged securities.

Certificates of Deposit

Certificates of deposit at several local banks consisted of the following at December 31:

| <u>Date of Deposit</u> | <u>Maturity Date</u> | 2010 | | 2009 |
|----------------------------|--------------------------|--------------------------|-------------------|----------------|
| | | <u>Interest Rate</u> | <u>Amount</u> | <u>Amount</u> |
| 04/03/07 | 04/03/10 | 2.00 | \$ - | 49,403 |
| 04/07/05 | 04/07/10 | 2.00 | - | 119,163 |
| 07/24/08 | 01/23/11 | 1.70 | 94,498 | 92,909 |
| 04/09/10 | 04/09/11 | 2.00 | 171,980 | - |
| 05/05/06 | 05/05/11 | 1.20 | 54,897 | 54,270 |
| 08/03/06 | 08/03/11 | 1.25 | 64,577 | 63,468 |
| 10/21/08 | 10/21/11 | 1.10 | 121,988 | 119,400 |
| 12/06/07 | 12/06/11 | 1.00 | 58,239 | 57,088 |
| | | | <u>\$ 566,179</u> | <u>555,701</u> |

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

3. RESTRICTED INVESTMENT - KDHE LOAN RESERVE

The loan agreements with the Kansas Department of Health and Environment (KDHE) require ten percent of the loan proceeds to be held in a loan reserve account with the Kansas Development Finance Authority. Monies held in the loan reserve account are invested as a separate fund by the Kansas Development Finance Authority with earnings being credited to the District.

4. LONG-TERM DEBT

The following is an analysis of long-term debt at December 31:

| | <u>2010</u> | <u>2009</u> |
|---|--------------------|------------------|
| Kansas Department of Health and Environment - due in semi-annual installments of principal and interest of \$19,695 at a fixed rate of 4.0% including service fee. Due February 1, 2020. | \$ 308,779 | 335,027 |
| Kansas Department of Health and Environment - due in semi-annual installments of principal and interest of \$126,021 at a fixed rate of 3.36% including service fee. Due August 1, 2028. | <u>3,383,542</u> | <u>3,527,561</u> |
| | 3,692,321 | 3,862,588 |
| Less current portion | <u>166,824</u> | <u>161,171</u> |
| Long-term portion | <u>\$3,525,497</u> | <u>3,701,417</u> |

Scheduled maturities of long-term debt:

| | |
|------------|--------------------|
| 2011 | \$ 166,824 |
| 2012 | 172,655 |
| 2013 | 178,690 |
| 2014 | 184,937 |
| 2015 | 191,404 |
| Thereafter | <u>2,797,811</u> |
| | <u>\$3,692,321</u> |

Net revenues of the District have been pledged as security for the debt, and the District is required to have net revenues, as defined in the debt agreements, in each year of at least 125% of that year's principal and interest payment requirements. This requirement was met for the year ended December 31, 2010.

NOTES TO FINANCIAL STATEMENTS

December 31, 2010

5. RETIREMENT PLAN

The District established a SIMPLE IRA program beginning in 2008. Basically, all employees are eligible to participate. The District matches employee contributions to the plan up to 3 percent of compensation. The District's contributions were \$3,683 and \$3,963 for the years ended December 31, 2010 and 2009, respectively.

6. FUND EQUITY – RESTRICTED

| | <u>2010</u> | <u>2009</u> |
|--|-------------------|----------------|
| <u>Principal and Interest Account</u> | | |
| Under the terms of the debt agreements, the District is required to add to a reserve account each month an amount necessary to meet, on the next payment date, all interest and principal of the District's long-term debt on that date. | \$ 121,429 | 121,428 |
| <u>Bond Reserve Account</u> | | |
| Kansas Department of Health and Environment requires a 10% reserve account. | <u>424,331</u> | <u>425,241</u> |
| Total restricted fund equity | <u>\$ 545,760</u> | <u>546,669</u> |

8. DATE OF MANAGEMENT'S REVIEW

Management has performed an analysis of the activities and transactions subsequent to December 31, 2010, to determine the need for any adjustments to and/or disclosures within the audited financial statements. Management has performed their analysis through February 7, 2011, which is the date at which the financial statements were available to be issued.